

**The Food Allergy &
Anaphylaxis Network, Inc.**

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2009 AND 2008

WATKINS | MEEGAN

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Independent Auditors' Report

To the Board of Directors
The Food Allergy & Anaphylaxis Network, Inc.
Fairfax, Virginia

We have audited the accompanying statement of financial position of The Food Allergy & Anaphylaxis Network, Inc. (FAAN), as of December 31, 2009, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of FAAN's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of FAAN as of December 31, 2008, and for the year then ended were audited by other auditors, whose report dated August 18, 2009, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of The Food Allergy & Anaphylaxis Network, Inc., as of December 31, 2009, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Bethesda, Maryland
June 15, 2010

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,830,183	\$ 1,538,614
Investments	423,387	3,953,705
Accounts Receivable	49,632	35,711
Grants and Contributions Receivable	170,926	288,574
Inventory	145,807	147,441
Prepaid Expenses	142,812	117,548
Total Current Assets	<u>4,762,747</u>	<u>6,081,593</u>
PROPERTY AND EQUIPMENT, Net	162,337	61,251
DEPOSITS	25,580	19,352
INVESTMENTS	-	99,000
457(b) RETIREMENT INVESTMENTS	<u>212,408</u>	<u>159,606</u>
Total Assets	<u>\$ 5,163,072</u>	<u>\$ 6,420,802</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 301,917	\$ 479,531
Grants Payable, Current Portion	934,622	781,774
Deferred Revenue, Current Portion	178,304	407,302
Deferred Lease Incentive, Current Portion	11,978	-
Total Current Liabilities	<u>1,426,821</u>	<u>1,668,607</u>
LONG-TERM LIABILITIES		
Grants Payable, Net of Current Portion	350,378	187,474
Deferred Revenue, Net of Current Portion	362,413	177,190
Deferred Lease Incentive, Net of Current Portion	41,139	-
457(b) Retirement Obligation	<u>212,408</u>	<u>159,606</u>
Total Liabilities	2,393,159	2,192,877
NET ASSETS		
Unrestricted:		
Undesignated	818,644	499,548
Board Designated	787,486	2,589,763
Total Unrestricted	<u>1,606,130</u>	<u>3,089,311</u>
Temporarily Restricted	<u>1,163,783</u>	<u>1,138,614</u>
Total Net Assets	<u>2,769,913</u>	<u>4,227,925</u>
Total Liabilities and Net Assets	<u>\$ 5,163,072</u>	<u>\$ 6,420,802</u>

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	Year Ended December 31,			
	2009		2008	
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted
Support and Revenue				
Contributions and Grants	\$ 2,860,233	\$ 928,990	\$ 3,789,223	\$ 899,712
Memberships Dues	540,303	-	540,303	-
Resource Revenue	300,314	-	300,314	-
Special Mailing Revenue	34,634	-	34,634	-
Special Events Revenue, Net of Expenses of \$80,639 in 2009 and \$111,813 in 2008	280,077	-	280,077	-
Patient Conference Revenue	49,790	-	49,790	-
Special Programs	2,500	-	2,500	-
Interest and Dividends	21,915	-	21,915	-
Realized Loss on Sale of Investments	(106)	-	(106)	-
Unrealized Gain on Investments	-	-	-	-
Miscellaneous	11	-	11	-
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	903,821	(903,821)	-	(763,806)
Total Support and Revenue	4,993,492	25,169	5,018,661	135,906
Expenses				
Program Costs	5,285,132	-	5,285,132	-
General and Administrative	647,824	-	647,824	-
Fundraising	543,717	-	543,717	-
Total Expenses	6,476,673	-	6,476,673	-
CHANGE IN NET ASSETS	(1,483,181)	25,169	(1,458,012)	135,906
NET ASSETS, Beginning of Year	3,089,311	1,138,614	4,227,925	1,002,708
NET ASSETS, End of Year	\$ 1,606,130	\$ 1,163,783	\$ 2,769,913	\$ 1,138,614
				\$ 4,227,925

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009

	<u>Program Costs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 1,574,897	\$ 398,755	\$ 204,499	\$ 2,178,151
Payroll Taxes	118,313	29,956	15,363	163,632
Employee Benefits	161,279	40,835	20,942	223,056
Retirement	29,370	7,436	3,813	40,619
Cost of Resources Sold	89,537	-	-	89,537
Grants and Scholarships Awarded	1,571,147	-	-	1,571,147
Product Development and Design	23,490	-	-	23,490
Contract Labor	13,365	11,458	443	25,266
Rent	-	288,065	-	288,065
Travel	151,953	6,932	3,262	162,147
Conferences	84,769	-	-	84,769
Accounting and Legal	8,032	47,108	303	55,443
Other Professional Fees	282,004	245	17,053	299,302
Supplies	50,487	36,052	1,763	88,302
Insurance	16,751	4,062	-	20,813
Dues and Subscriptions	4,064	1,688	995	6,747
Postage and Shipping	239,041	1,829	28,934	269,804
Equipment Rental and Maintenance	45,389	30,002	-	75,391
Telephone	18,417	30,948	562	49,927
Service Charges	64,064	4,220	44,071	112,355
Meals and Entertainment	40,786	9,166	150	50,102
Property and Other Taxes	-	2,949	-	2,949
Advertising	5,237	-	-	5,237
Computer and Internet	27,373	26,316	2,325	56,014
Depreciation and Amortization	-	33,925	-	33,925
Printing and Publications	162,607	20,081	87,483	270,171
Staff Training	7,520	4,745	-	12,265
Storage	5,403	-	-	5,403
Staff Recruiting	1,471	89,928	-	91,399
In-Kind Expenses	49,574	-	18,708	68,282
Other	33,318	1,836	17,809	52,963
Overhead Allocation	405,474	(480,713)	75,239	-
Total Expenses	<u>\$ 5,285,132</u>	<u>\$ 647,824</u>	<u>\$ 543,717</u>	<u>\$ 6,476,673</u>

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008

	<u>Program Costs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 1,436,571	\$ 429,033	\$ 145,927	\$ 2,011,531
Payroll Taxes	92,596	27,654	9,406	129,656
Employee Benefits	117,684	35,146	11,955	164,785
Retirement	52,262	15,608	5,309	73,179
Cost of Resources Sold	154,928	-	-	154,928
Grants and Scholarships Awarded	1,003,879	-	-	1,003,879
Product Development and Design	25,355	45	1,133	26,533
Contract Labor	88,338	42,610	4,451	135,399
Rent	-	196,725	-	196,725
Travel	137,083	12,560	607	150,250
Conferences	76,556	-	-	76,556
Accounting and Legal	3,540	32,172	24	35,736
Other Professional Fees	210,415	3,352	18,000	231,767
Supplies	43,366	40,186	6,773	90,325
Insurance	6,338	6,783	-	13,121
Dues and Subscriptions	6,009	3,050	-	9,059
Postage and Shipping	254,623	3,079	34,143	291,845
Equipment Rental and Maintenance	38,068	25,563	-	63,631
Telephone	19,332	24,031	69	43,432
Service Charges	52,934	1,708	94,360	149,002
Meals and Entertainment	73,132	8,463	152	81,747
Property and Other Taxes	-	3,568	-	3,568
Advertising	3,508	-	-	3,508
Computer and Internet	14,963	42,689	6,039	63,691
Research	83	-	-	83
Depreciation and Amortization	-	44,945	-	44,945
Printing and Publications	164,662	17,098	103,738	285,498
Staff Training	6,854	3,249	195	10,298
Storage	8,830	-	-	8,830
Staff Recruiting	225	81,165	49	81,439
Other	48,786	5,891	26,032	80,709
Overhead Allocation	303,474	(343,543)	40,069	-
Total Expenses	\$ 4,444,394	\$ 762,830	\$ 508,431	\$ 5,715,655

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,458,012)	\$ 308,223
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	33,925	44,945
Realized Loss on Sale of Investments	106	28,341
Unrealized Gain on Investments	-	(202)
Loss on Disposal of Fixed Assets	-	3,913
Donated Investments	(4,370)	(1,016)
Deferred Lease Incentive	53,117	-
Change In:		
Accounts Receivable	(13,921)	2,292
Grants and Contributions Receivable	117,648	(228,774)
Inventory	1,634	35,460
Prepaid Expenses	(25,264)	(18,735)
Deposits	(6,228)	4,544
Accounts Payable and Accrued Expenses	(177,614)	128,914
Grants Payable	315,752	30,291
Deferred Revenue	(43,775)	(47,058)
	<u>(1,207,002)</u>	<u>291,138</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(135,011)	(24,629)
Proceeds from Sales/Maturities of Investments	4,058,908	5,685,000
Purchase of Investments	(425,326)	(6,501,951)
	<u>3,498,571</u>	<u>(841,580)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,291,569	(550,442)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,538,614</u>	<u>2,089,056</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 3,830,183</u>	<u>\$ 1,538,614</u>

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

The Food Allergy & Anaphylaxis Network, Inc. (FAAN), is a national nonprofit organization established in 1991 to raise public awareness, to provide advocacy and education, and to advance research on behalf of all of those affected by food allergies and anaphylaxis.

Basis of Accounting

The accompanying financial statements of FAAN have been prepared on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligation is incurred.

Nature of Activities

FAAN's main sources of revenue can be summarized as follows.

Contributions and Grants - Donations that are received from private, corporate, and governmental sources, as well as from special events and FAAN walks.

Membership Dues - Income derived from sales of one, two, and three-year memberships to FAAN. As part of the benefits of membership, members receive an internally produced bimonthly newsletter.

Resource Revenue - Revenue derived from the sale of educational resource materials to members and the general public.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statement purposes, FAAN considers all cash, checking, savings, and money market funds to be cash equivalents.

Investments

Investments are recorded at their fair value based on quoted market prices. Accordingly, unrealized gains and losses due to market fluctuations are recognized in the statements of activities and change in net assets. Long-term investments have maturity dates greater than one year from statement of financial position date. Realized gains or losses are recognized upon sale based upon the specific identification method.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

FAAN records trade, grant, and contribution receivables, net of an allowance for doubtful accounts. The allowance is determined based on a review of the estimated collectibility of the specific assets, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged-off against the allowance for doubtful accounts once management determines an amount, or a portion thereof, to be uncollectible. Management considers receivables at December 31, 2009 and 2008, to be collectible. No bad debt expense has been recorded for the years ended December 31, 2009 and 2008.

Inventory

Inventory, which consists mainly of educational materials, is stated at the lower of cost or estimated net realizable value determined using the first-in-first-out (FIFO) method. Cost of inventory sold is reflected in cost of resources sold under program costs on the statements of functional expenses and in program costs under expenses on the statements of activities and change in net assets when individual items are sold.

Shipping and Handling Costs

Shipping and handling costs of resource revenue are expensed to postage and shipping expense and are considered program costs.

Property and Equipment

Property and equipment consists of fixed asset purchases greater than \$1,000 with an estimated useful life of greater than one year. Fixed assets are recorded at historical cost (or fair market value, if donated) and are depreciated using an accelerated method over useful lives of between 5 and 10 years. Software is amortized on the straight-line basis over a useful life of 3 years. Leasehold improvements are amortized over the remaining non-cancelable lease term when the improvements are placed in service.

Grants Payable

Grants payable are accrued for financial statement purposes upon the approval by the medical board of the grant recipient. Until such approval occurs, the approved grant commitments are transferred from undesignated net assets to designated net assets - Research Grants.

Net Assets

FAAN's net assets are classified into two categories: unrestricted and temporarily restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets are contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the contributions are used for their restricted purpose, at which time they are reported on the statements of activities and change in net assets as net assets released from restrictions. FAAN has no permanently restricted net assets.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

FAAN is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. FAAN has not been classified as a private foundation by the Internal Revenue Service (IRS). FAAN is subject to income tax on unrelated business income related to advertising revenues. FAAN did not have any unrelated business income for the years ended December 31, 2009 and 2008. Tax years prior to 2006 are no longer subject to examination by the IRS and the tax jurisdiction of Virginia.

Revenue Recognition

Membership dues received from members are recognized as revenue in the applicable membership period. Deferred membership dues represent that portion of dues receipts which apply to future periods.

Functional Expense Allocations

FAAN's expenses have been reported based on natural account classification in the statements of functional expenses and allocated on a functional basis to program costs, general and administrative, and fundraising activities based upon the amount of time spent on each functional activity or the specific identification of the expenses incurred. The allocation of costs on a functional basis to program costs, general and administrative, and fundraising activities is reported on the statements of activities and change in net assets.

Reclassification

Certain balances in the 2008 financial statements have been reclassified to conform to the 2009 financial statement presentation.

Subsequent Events

In accordance with FASB Accounting Standards Codification (FASC) topic on *Subsequent Events*, FAAN has evaluated events and transactions for potential recognition or disclosure through June 15, 2010, the date the financial statements were available to be issued.

NOTE 2 – CONCENTRATION OF CREDIT RISK

FAAN maintains cash balances at financial institutions and, at times, these balances may exceed the \$250,000 amount insured by the Federal Deposit Insurance Corporation. The amount of uninsured deposits at December 31, 2009, was approximately \$603,000.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 3 – INVESTMENTS

Investments consist of the following:

	December 31,	
	2009	2008
Certificates of Deposit	\$ 418,025	\$ 414,515
Corporate Stocks	5,362	1,666
US Treasury Money Market Mutual Funds	-	3,636,524
	<u>\$ 423,387</u>	<u>\$ 4,052,705</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2009	2008
Office Furniture and Equipment	\$ 123,637	\$ 123,637
Computer Equipment	75,266	57,552
Software	276,767	159,470
Leasehold Improvements	13,378	13,378
	<u>489,048</u>	<u>354,037</u>
Accumulated Depreciation and Amortization	<u>(326,711)</u>	<u>(292,786)</u>
	<u>\$ 162,337</u>	<u>\$ 61,251</u>

NOTE 5 – GRANTS PAYABLE

During 2009 and 2008, FAAN awarded research grants to universities and medical centers totaling \$1,571,147 and \$1,000,878, respectively. An independent medical board reviews all grant proposals and recommends which proposals to fund. Most of the grants periods are for two years with semi-annual progress payments to be made. Each grant includes a 10 percent retainer to be paid upon completion of the grant project. Grants payable consist of the following:

	December 31,	
	2009	2008
Grants Payable - Less than One Year	\$ 934,622	\$ 781,774
Grants Payable - One to Five Years	<u>350,378</u>	<u>187,474</u>
	<u>\$ 1,285,000</u>	<u>\$ 969,248</u>

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 5 – GRANTS PAYABLE (Continued)

No discounts for grants to be paid in the future was recorded, as the cost of the grants approximates present value.

As of December 31, 2009 and 2008, FAAN's board of directors had approved funding future research totaling approximately \$431,000 and \$1,120,000, respectively. These grants were not expensed as of December 31, 2009 and 2008, because they were conditioned upon the grantee institutional review board (IRB) approving the research.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	December 31,	
	2009	2008
Purpose Restrictions	\$ 904,189	\$ 1,101,493
Time Restrictions	259,594	37,121
	<u>\$ 1,163,783</u>	<u>\$ 1,138,614</u>

NOTE 7 – BOARD DESIGNATED NET ASSETS

Board designated net assets consist of the following:

	December 31,	
	2009	2008
Operating Reserves	\$ 500,000	\$ 500,000
Community Project Expenditures	-	50,767
Research Grants	287,486	1,995,850
CEO Search Costs	-	43,146
	<u>\$ 787,486</u>	<u>\$ 2,589,763</u>

NOTE 8 – DONATED GOODS AND SERVICES

Donated goods and services are recorded at their estimated fair values at the date of donation. During 2009 and 2008, FAAN received stock donations with a total value of \$4,370 and \$1,016, respectively. FAAN also received donated goods and services related to its Walks totaling \$68,282 and \$30,000 for the years ended December 31, 2009 and 2008, respectively. In 2008, FAAN also received in-kind use of movie screening facilities valued at \$3,810, included in special events contributions revenue and expenses on the statements of activities and change in net assets.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 9 – RETIREMENT PLANS

FAAN has adopted a 401(k) retirement plan in which participants may elect to defer up to 15 percent of their annual compensation, up to the legal limit. In order to be eligible to participate, the employee must be 18 years old and have completed one year of service.

FAAN makes an employer contribution to the plan if the participant was employed on the last day of the plan year (regardless of hours of service). The amount of the employer contribution is a discretionary amount equal to a percentage of the participants' salary deferral amount, which percentage will be determined each year by FAAN. FAAN also contributes an additional 3 percent of eligible employees' gross wages regardless of whether the employee elected salary deferral. During 2009 and 2008, FAAN contributed \$41,092 and \$73,874 to the plan, respectively, of which \$473 and \$695, respectively, has been allocated to special events expenses in the statements of activities and change in net assets. FAAN did not make a discretionary contribution in 2009.

FAAN has established a Section 457 Deferred Compensation Plan to provide a select group of management or highly compensated employees the ability to defer a portion of their compensation to provide retirement benefits. The Plan also provides for discretionary contributions by the FAAN. The Plan was established to comply with the requirements of Section 457 of the Internal Revenue Code. Participants are able to defer the maximum amount allowed under Code Section 457 (\$16,500 for 2009 and \$15,500 for 2008). Plan assets consist of mutual funds. Employer contributions become immediately vested to employees. FAAN made no discretionary contributions for the year ended December 31, 2009 or 2008. FAAN has recorded an asset and liability related to the Plan of \$212,408 and \$159,606 at December 31, 2009 and 2008, respectively.

NOTE 10 – LINE OF CREDIT

As of December 31, 2009, FAAN had a \$50,000 unsecured line of credit available for future operating use which will remain open until FAAN requests for it to be closed. Interest on outstanding balances is charged at *The Wall Street Journal* prime rate plus one percent or 4.25 percent at December 31, 2009. No amount was borrowed against this line as of December 31, 2009 or 2008.

NOTE 11 – ALLOCATION OF JOINT COSTS

In 2009 and 2008, FAAN conducted activities that included requests for contributions, as well as program components. The activities consisted of walk-a-thons. The costs of conducting these activities are not specifically attributable to particular components of the activities (joint costs). These joint costs were allocated as follows:

	December 31,	
	2009	2008
Fundraising	\$ 275,659	\$ 336,460
Program - Awareness	733,768	762,862
	<u>\$ 1,009,427</u>	<u>\$ 1,099,322</u>

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 12 – COMMITMENTS

Leases

In 2007, FAAN entered into a non-cancellable lease for two office spaces that expires in October 2012. The lease calls for current monthly rent on the two office spaces of \$20,756 and 3 percent annual escalations effective November of each year. Rent expense, including lease incentives such as free rent, is recognized on a straight-line basis over the lease terms of the two office spaces.

FAAN also pays its proportionate share of the operating expenses. A five-year lease term extension is available. Total rent expense for 2009 and 2008 was \$288,065 and \$196,725, respectively.

Minimum future lease payments required under the terms of the lease are as follows:

<u>Year Ending December 31,</u>	
2010	\$ 250,328
2011	257,873
2012	<u>220,243</u>
	<u>\$ 728,444</u>

Employment Agreement

On April 23, 2010, FAAN signed an employment agreement with its CEO, effective through March 31, 2011, and renewable annually thereafter. The agreement states that if she is terminated other than for cause, FAAN shall provide six months' salary at her current salary level. In the event that the agreement is not renewed by FAAN, FAAN shall provide three months of salary and benefits at her current salary level.

Meeting Commitments

FAAN has contracts with hotels for holding future conferences during 2010. If a contract is cancelled prior to the date of the conference, FAAN is required to pay cancellation fees as stipulated in the contracts, the amounts of which are dependent upon the respective dates of cancellation. Due to the numerous variables involved, FAAN's ultimate liability under these contracts cannot be determined; however, the estimated costs range from \$0 to \$26,000 depending on the nature, timing, and number of conference cancellations. As of December 31, 2009, there are no plans to cancel any future conferences.

NOTE 13 – CONTINGENCIES

In November 2008, a former employee of FAAN filed a charge of discrimination with the Fairfax County Human Rights Commission and the federal Equal Employment Opportunity Commission (EEOC), alleging discrimination based on age and gender. FAAN submitted its position statement with the EEOC on January 21, 2009, in response to the charge. FAAN is unable to determine the likelihood of an unfavorable result if the former employee proceeds with her claims against the Company. FAAN intends to vigorously defend the case.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 14 – FAIR VALUE MEASUREMENTS

FAAN has determined the fair value of certain assets and liabilities in accordance with the FASC topic on *Fair Value Measurements and Disclosures*. Fair values of assets and liabilities measured on a recurring basis at December 31, 2009 and 2008, are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2009</u>				
<u>Assets</u>				
Certificates of Deposit	\$ 418,025	\$ 418,025	\$ -	\$ -
Corporate Stocks	5,362	5,362	-	-
457(b) Retirement Investments Mutual Funds	212,408	212,408	-	-
<u>Liabilities</u>				
457(b) Retirement Obligation	(212,408)	(212,408)	-	-
	<u>\$ 423,387</u>	<u>\$ 423,387</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2008</u>				
<u>Assets</u>				
Certificates of Deposit	\$ 414,515	\$ 414,515	\$ -	\$ -
Corporate Stocks	1,666	1,666	-	-
US Treasury Money Market Mutual Funds	3,636,524	3,636,524	-	-
457(b) Retirement Investments Mutual Funds	159,606	159,606	-	-
<u>Liabilities</u>				
457(b) Retirement Obligation	(159,606)	(159,606)	-	-
	<u>\$ 4,052,705</u>	<u>\$ 4,052,705</u>	<u>\$ -</u>	<u>\$ -</u>

Mutual funds within the 457(b) plan are comprised principally of money market funds (approximately 87 percent), index funds (approximately 9 percent), US government securities funds (approximately 3 percent) and other funds (approximately 1 percent). The value of the 457(b) obligations is based upon the underlying fair value of the 457(b) plan assets.

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